

Phase One Trade Agreement USCBC Member Survey

Round Two

May 2020



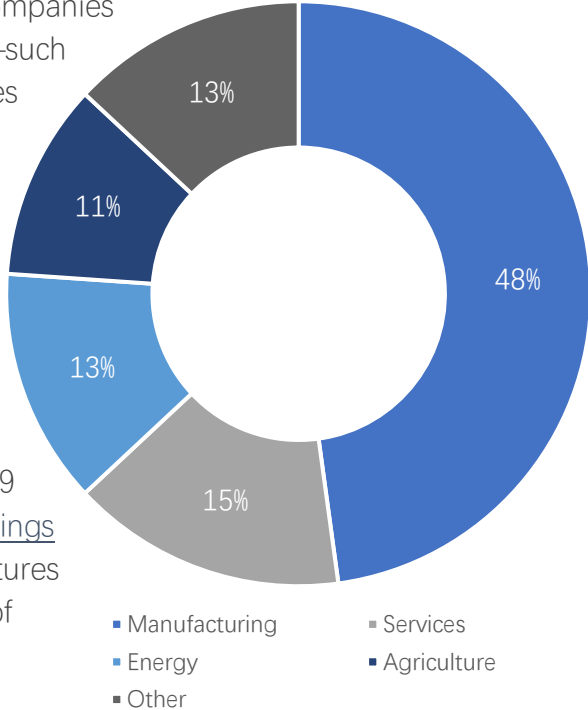
THE US-CHINA BUSINESS COUNCIL
美中贸易全国委员会

Phase One Trade Agreement USCBC Member Survey: Round Two

May 2020

Four months have passed since the United States and China signed the Phase One trade agreement. China has already followed through on several commitments, including liberalizing a range of agriculture policy restrictions, releasing policies according to its intellectual property (IP) commitments, and raising equity restrictions to give foreign companies new access to China's financial markets. Some commitments—such as the delivery of China's IP action plan—missed their deadlines enumerated in the agreement, but were ultimately delivered. Though US-China trade plummeted in the first quarter of 2020 as a result of the COVID-19 outbreak, it promises to pick back up again as China restarts its economic growth engine.

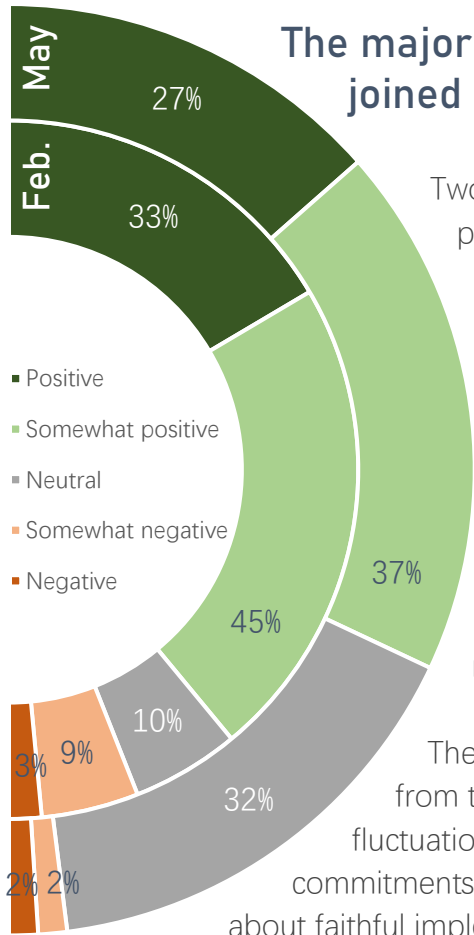
In this uncertain environment, the US-China Business Council (USCBC) asked our members a series of questions about Phase One implementation and the impact of COVID-19 on the agreement. This report is an update to [our original findings](#) released shortly after Phase One was signed. This iteration features responses from 38 USCBC member companies from a range of industries.



Emerging trends since February:

- Uncertainty about faithful implementation of the Phase One deal is driving a greater percentage of respondents to identify as neutral toward the deal.
- A plurality of respondents say that disruptions from COVID-19 are an obstacle to business opportunities created by Phase One.
- A larger portion of respondents answered that the costs of the Section 301 tariffs outweigh the benefits from the trade agreement.
- The majority of respondents affected by China's retaliatory tariffs have secured some degree of tariff exclusion.
- Companies are still uncertain about leveraging Phase One's dispute resolution mechanism.

The majority lean positive about Phase One, but more have joined the neutral camp

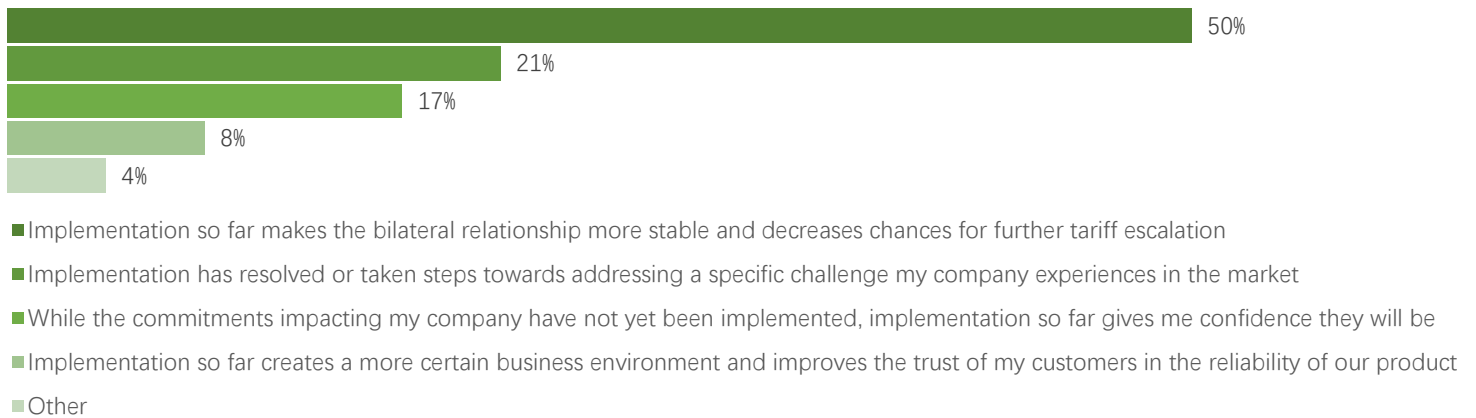


Two months into implementation, USCBC members remain bullish on the prospects of the Phase One deal. Sixty-four percent of respondents feel positive or somewhat positive about the deal, while those with a negative perspective of the deal shrank considerably to only four percent. There has been a sizable increase in the number of respondents who feel neutral about the agreement.

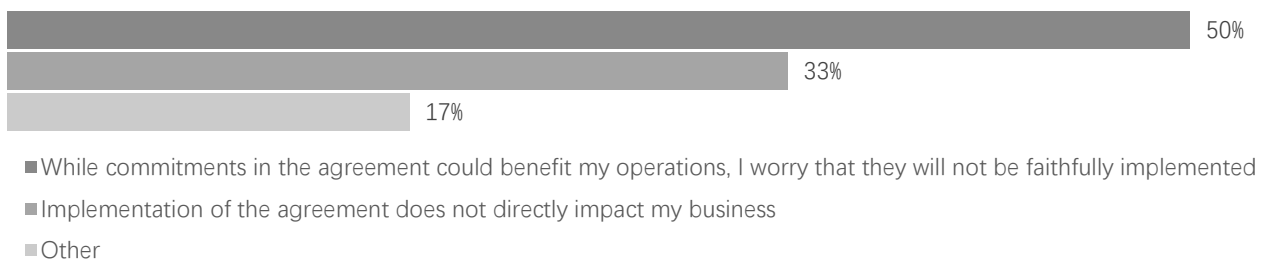
For those that remain positive about the agreement, bilateral stability and the prevention of future tariff escalation was the most common reason. More than 20 percent of those that remain positive about the agreement say that implementation has resolved or taken steps to resolve a problem their company faces in the China market.

The uptick in neutral sentiment may be attributable to uncertainty stemming from the global COVID-19 crisis, which has snarled supply chains and caused fluctuations in both supply and demand for goods included in the deal's purchase commitments. Of the respondents who are neutral, about half said they were worried about faithful implementation.

Perspective is positive because...

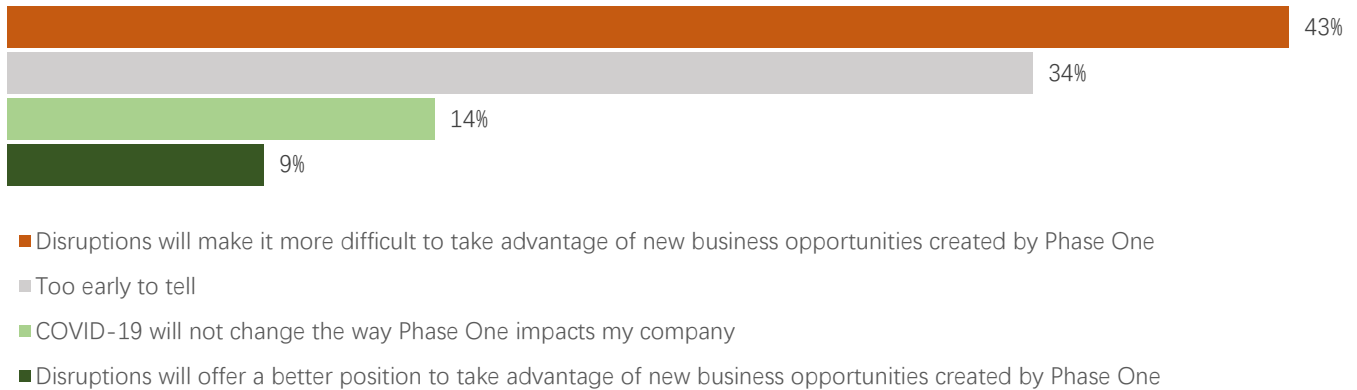


Perspective is neutral because...



COVID-19 and business opportunities

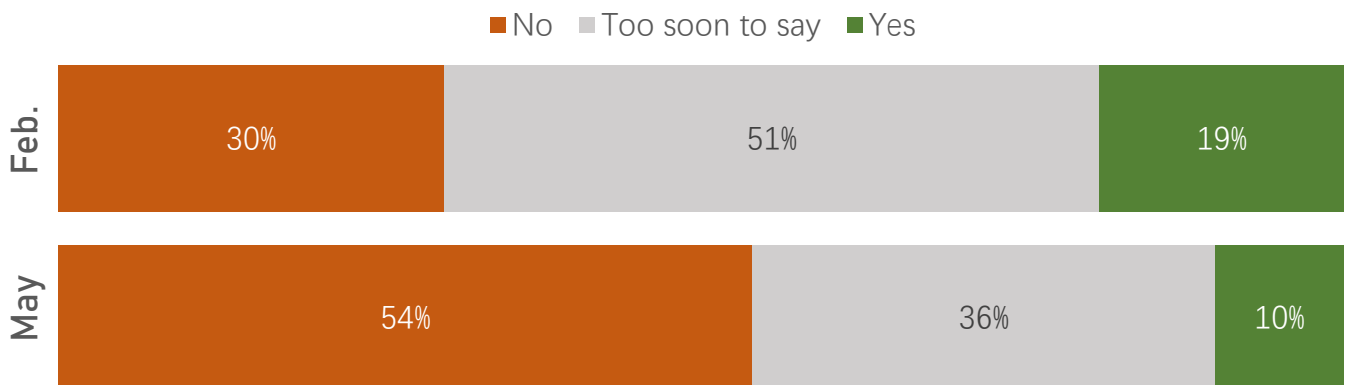
A large portion of respondents feel that disruptions caused by COVID-19 will negatively impact their ability to capitalize on new business opportunities coming from the Phase One agreement. Roughly one third of companies feel it is too early to tell and nine percent believe that disruptions caused by the pandemic will help them benefit from Phase One commitments.



Dwindling confidence in Section 301 actions

The Office of the US Trade Representative's original Section 301 investigation into China's trade practices resulted in tariffs on about \$370 billion of imports from China and retaliatory tariffs on US goods. When surveyed in February, the majority of respondents felt it was too soon to determine if the benefits from the trade agreement outweigh the costs of the Section 301 tariff actions. Three months later, a majority of respondents consider the costs to outweigh the benefits. The proportion of respondents who say Section 301 actions are worth the costs shrunk by nearly half.

Do the benefits outweigh the costs of the US administration's Section 301 actions?



Most affected respondents have secured some degree of Chinese tariff exclusions

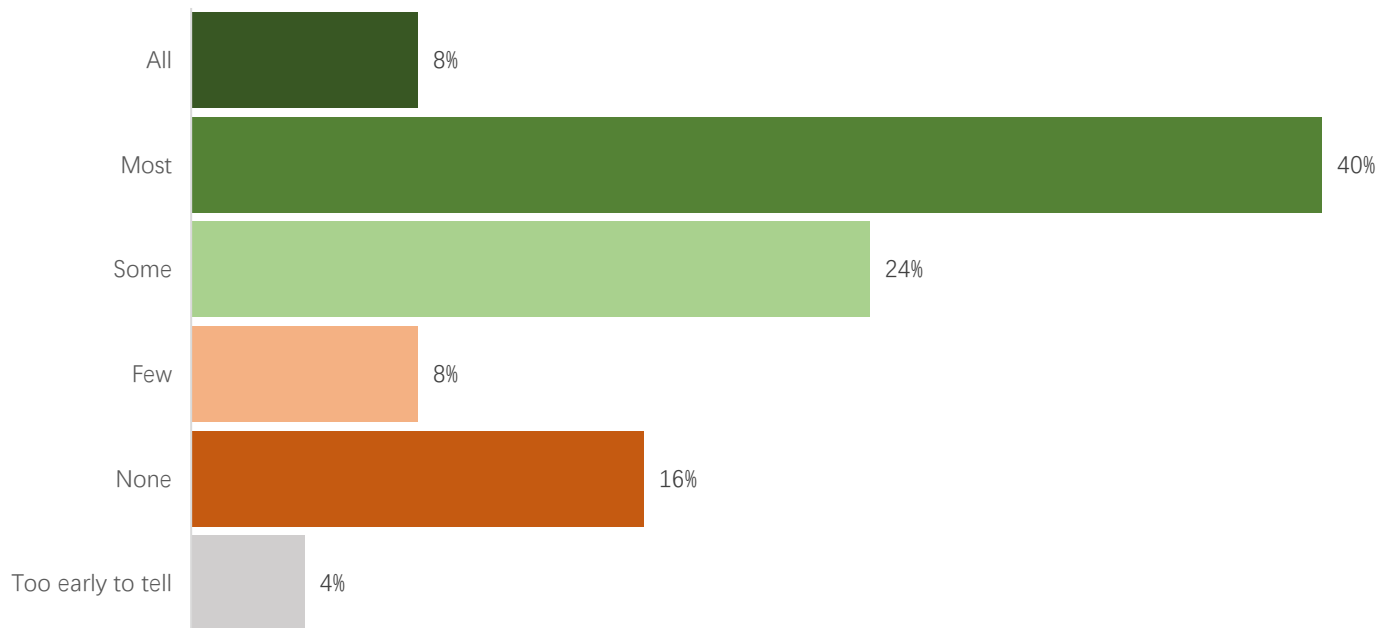
China has granted tariff exclusions for a number of US products in order to facilitate its Phase One commitment to purchase \$200 billion in agricultural products, manufactured goods, energy, and services on top of 2017 levels over the next two years. Of respondents whose company's products are affected by Chinese retaliatory tariffs, around 80 percent have had at least a few of their products receive exclusions, while 20 percent have not received exclusions or say it is too early to tell. Thirty-four percent of all respondents say their company's products are unaffected by Chinese retaliatory tariffs.

Respondents with products affected by Chinese retaliatory tariffs

■ Not affected ■ Affected



How many of your company's products have been excluded from Chinese retaliatory tariffs?



** excludes respondents whose products were unaffected*

Respondents are still uncertain about leveraging the dispute resolution mechanism

In the latest survey data, a plurality of respondents remain uncertain about using the agreement’s dispute resolution mechanism designed to hold both sides to their commitments and prevent either side from abruptly enacting retaliatory measures. The percentage of respondents indicating their company is likely to use the dispute resolution mechanism remains fairly constant at around one fifth, while the percentage that say they are unlikely to use it has grown from 30 percent to 38 percent. Of companies that plan to use the mechanism, most say they will do so primarily through trade associations or as an option of last resort.

How likely is your company to utilize the Phase One agreement’s dispute resolution mechanism if a non-compliance issue arises?

